

CABINET

11 December 2018

Title: Dedicated Schools Budget and School Funding Formula 2019-20	
Report of the Cabinet Member for Educational Attainment and School Improvement	
Open Report	For Decision
Wards Affected: All	Key Decision: Yes
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Accountable Directors: Helen Seechurn – Interim Finance Director Jane Hargreaves, Commissioning Director – Education	
Accountable Strategic Leadership Directors: Claire Symonds, Chief Operating Officer; Elaine Allegretti – Director of People and Resilience	
Summary This report provides an update on the national Education Funding reforms and their likely impact on Barking and Dagenham. This report also sets out the Dedicated Schools Budget (DSB) strategy for 2019/20 and the principles that we plan to use for the Local Funding Formula for Schools following discussion with Schools Forum and consultation with schools. The report also considers the implications for the Council of the funding changes and the risks and opportunities that arise as a result.	
Recommendation(s) The Cabinet is recommended to: (i) Note the latest position on the national Education Funding Reform and the expected implications for Barking and Dagenham as set out in section 2 of the report; (ii) Approve the 2019/20 strategy for the Dedicated Schools Budget as set out in section 3 of the report; (iii) Agree, in principle, the proposed model for allocating school funding in 2019/20, as set out in section 4 and Appendix A to the report; and (iv) Delegate authority to the Commissioning Director of Education, in consultation with the Schools Forum, the Cabinet Member for Educational Attainment and School Improvement and the Chief Operating Officer, to approve the final 2019/20 school funding formula submission to the Education Funding Agency.	

Reason(s)

The Dedicated Schools Budget is part of the Council's overall budget and Local Authorities are required to develop and maintain a Local Funding Formula to distribute funding to schools.

1. Introduction and Background

- 1.1 Most Education funding including the bulk of funding for individual schools is provided by the Department of Education in the form of a specific ringfenced grant to Local Authorities known as the Dedicated Schools Grant (DSG). This grant was originally introduced in 2006 based on the allocations that Local Authorities were making at that time for Education and Schools. Although the grant has been modified in various ways since that time it remained based on those historic allocations until 2018.
- 1.2 The Department of Education has been committed for a number of years to an updating the funding system and in 2016 a National Funding Formula (NFF) was proposed for both the main Schools block and the High Needs Block (for more information on the block see below.) Under this new methodology funding will be calculated at the individual school level for mainstream schools and at the Local Authority level for Special Schools and Additional Needs based on a formula that takes into account population, deprivation, low attainment and other indicators of additional support needs.
- 1.3 The implementation of this new system is phased and 2019/20 is a transitional year during which the Local Authority is still required to set a local funding formula in conjunction with its local schools. This report sets out the principles for the 2019/20 Local Funding Formula.
- 1.4 The transitional period which previously had been set at two years has been extended by one year – until 2021/22.
- 1.5 Although Schools have previously been somewhat sheltered from the impact of the Government's austerity policy the level of funding provided for Education at a National level is not increasing in line with inflation resulting in a real terms reduction in funding. This combined with the reallocation of funding implicit in the new National Funding Formula will present financial challenges to Barking and Dagenham Schools. This report also outlines the key risks and challenges for this authority and its schools.

2. The Dedicated Schools Grant (DSG)

- 2.1 The Dedicated Schools Grant has sub components or "blocks" which are allocated to fund different aspects of the Education system: the Early Years block which pays for education and childcare for two, three and four year old children, the High Needs block for support to meet special educational needs and the Schools block which is in turn allocated to individual schools and academies according to a funding formula. From 2018/19, a fourth Central block has been created to fund core Local Authority education services. The table below shows the baseline allocation for Barking and Dagenham from 2017/18, the 2018/19 allocation and the indicative

allocation for 2019/20. These are baseline indicative figures based on school census data from October 2017 and will be subject to change based on the October 2018 census. The Early Years allocation has not yet been published but the 2017/18 amount is shown for information.

Table One: DSG 17/18 Baselines and provision 2018/19 allocations:

	2017/18 Baseline £000	Current 2018/19 Allocation £000	Indicative 2019/20 Allocation £000
High Needs Block	26,530	27,971	29,626
Central Block	2,518	2,531	2,558
Schools Block	205,156	208,217	210,462
Early Years Block	19,681	21,319	tbc

Schools Block

- 2.2 The national formula for schools funding is intended to provide more consistency and transparency around funding so that, in time, similar children in similar schools will be funded at the same level (adjusted for local cost variations.) It therefore provides a basic unit of funding for each student in a school (72.9% of the total funding being distributed this way) with 17.8% funding allocated to factors that are indicative of additional needs (deprivation, English as an additional language and low prior attainment) and a small amount of funding for school led funding (a lump sum and funding for rates and exceptional premises costs.) The basic unit for LBBD schools and in fact for most London authorities is lower than currently used resulting in a distribution of funding away from London on average. However, the additional needs factors are highly weighted so schools with very high levels of additional needs students are partially compensated for this. Finally, a funding floor has been used to contain funding losses at a minimum level. In July 2017, the Secretary of State for Education announced that additional funding had been found within the departmental budget to ensure that the formula allowed a minimum of 0.5% increase in pupil led funding in 2018 and a further 0.5% in 2019/20.
- 2.3 In practice, based on the illustrative figures published by the Department of Education all primary schools in Barking and Dagenham would be losers under the formula before protection and so are on the funding floor receiving only the minimum increase. Most (but not all) secondaries are potential gainers to a small extent and so will receive some increase in funding above the floor level. This is partly because the difference between our previous local rate and the national formula rate for secondary pupils is lower than for primary pupils and partly because rates of deprivation and other additional needs are higher in secondary schools.
- 2.4 It is very important to note that all schools are facing cost increases – both in teachers’ pay and general inflation and so effectively a below inflation increase amounts to a real term cut in funding. In particular the Government have provided some additional funding for the Teachers Pay Award – however this is only partial funding and schools are expected to absorb the first 1% of this increase.

- 2.5 In addition to the funding based on formula factors there are two other funding streams contained within the Schools block. The first is funding for Growth in pupil numbers and new schools and the second is funding for special premises factors (such as business rates and PFI contracts) and pupil mobility.
- 2.6 The Department's intention is to move to a fully formula-based allocation. A methodology for doing this has not yet been devised for the premises/mobility factors and funding is based on the historic allocations for each authority. However, the Department have announced an intention to move towards a formula basis for 2019/20. By their nature, these kinds of costs are very individual and, in most cases, not easily controlled or changed. Therefore, this could present a risk for authorities if the formula allocation does not provide a good match for the distribution of costs. However, this is likely to be mitigated by some level of transitional protection.
- 2.7 However the Department will be introducing a formula basis for the allocation of growth funding. This will consider positive changes in pupil numbers at the Middle Layer Super Output area (a geographical unit used by the ONS) between the Oct census from one year to another. This means that the funding will be lagged ie funding is only received after the costs of growth have been incurred and the use of a one-year timescale could result in some funding volatility. Since place planning is by nature future looking and should take place over a multi-year timescale this funding methodology could place burdens on the authority resulting from this mismatch in funding and cost profiles.
- 2.8 In 2018/19 LBBB received £4.044m growth funding but under the formula calculation the 2019/20 would be only £1.938m. The DfE have recognised that such large swings in funding will be problematic and have introduced a level of protection which will increase the 2019/20 to £2.983m. This is however a reduction of nearly £1m and will require changes to our arrangements for funding growth.

High Needs Block

- 2.9 The High Needs Block provides funding for Local Authorities (rather than for delegation to schools) and is made available to meet the additional costs of supporting students with special educational needs aged 0 to 25 years. The funding was previously based on historical allocations with very little linkage to actual levels of need in an area. There is some evidence that the block is underfunded at a national level and that the distribution is not closely linked to needs in local areas. This is particularly problematic for Barking and Dagenham as High Needs spending has not kept up with the growth in the child and young person population resulting in several years of above grant spending (funding from the DSG reserve or transfers from other blocks.)
- 2.10 The government has also proposed a national formula for High Needs to distribute money to Local Authorities in a more consistent and transparent way. This presents a number of technical problems as establishing good data on the true drivers of need in this block remains challenging but a number of proxy indicators have been developed. Under the proposed formula Barking and Dagenham would eventually be a significant gainer – probably reflecting the historic underfunding. Funding under the new formula should be in the region of £31.77mm. However, to avoid excessive turbulence across the country there will be a transition period during

which time gains will be restricted. As shown above, the LBBB High Needs funding will rise by £1.5m in 2019/20 to £29.626m. However, this is still £2.194m short of the full allocation. As a result of the level of need in the borough, spending in this block has been above the allocation for a number of years and there is a projected shortfall of £2.221m in 2018/19 which is expected to continue and potentially rise in line with pupil growth in 2019/20.

Central Block

- 2.11 The Central Block has been created in 2018/19 by combining the residual Education Services Grant of £0.6m and £1.9m of funding allocations for central services previously agreed by Schools Forum. The latter is made up specific continuing statutory functions (Admissions and running a Schools Forum) and local arrangements for historically agreed services. The Government's clear intention is to move the ESG and statutory functions elements towards a per head funding regime and to taper off historically agreed services over time.
- 2.12 The historically agreed services within LBBB are shown in the table below.

2017-18 Services	Historic Central Contribution £000
Trewern Outdoor Education Service	209
Community Music Service	310
Advisory Teachers	330
School Games Organiser Funding	50
School Estates	150
Total	1,049

- 2.13 It should be noted that the Education Services Grant has been very severely cut over the past two years. Prior to 2017/18, LBBB used to receive in the region of £3.4m to carry out a wide range of duties on behalf of maintained schools. However most of this funding has been removed with the exception of the £0.6m for a much more limited range of duties carried out on behalf of all children and schools including academies. However, the Council still retains most (if not all) of its previous responsibilities. Authorities were given the option in 2017/18 to consult with their schools forum to increase their central funding from the schools block. Barking and Dagenham did not choose to pursue this in recognition of the financial pressures in schools.

Early Years

- 2.14 The Early Years funding system was reformed last year with a welcome increase for Barking and Dagenham which has been largely passed onto our providers, partners and schools in an increased basic unit rate of £4.50. The overall allocation rose in 2018/19 following the introduction of the thirty hours free childcare for working families and is expected to rise again to cover the full year effect of this change.

3. The Dedicated Schools Budget Strategy for 2019/20

3.1 The table below shows the projected outturn for the Dedicated Schools Grant in 2018/19 and the subsequent impact on the reserve.

	Revised funding forecast £'000	Expenditure forecast £'000	Variance £'000
Schools Block	167,924	167,624	(300)
Early Years Block	21,319	21,319	0
High Needs Block	25,867	28,081	2,214
Central Block	2,559	2,559	-
Total	217,669	219,569	1,914
Brought forward DSG balance			(3,548)
DSG balance forecast for 31st March 2019			(1,642)

- 3.2 Under the transitional arrangements Authorities are allowed to transfer up to 0.5% of their schools block to the High Needs Block in order to meet pressures in this area with the agreement of Schools Forum. It was agreed that £0.75m transfer should be made in 2018/19 (0.35%) and this is included in the figures above. Despite this there is still a significant overspend on this block which will result in a drawdown from the DSG reserve reducing it to £1.642m or less than 1%
- 3.3 A management action plan has been put in place to reduce the pressures on the High Needs block. However a transfer of 0.5% or £1.073m is required in order to properly manage the significant funding pressures that are in the system until the formula funding is fully phased in by the DfE. Schools Forum have been consulted on this proposal and given their consent.
- 3.4 The impact of the transfer is that there is less money available to distribute directly to schools. However schools that include pupils with high levels of special educational needs are likely to benefit from the availability of funding to meet the needs of those students.
- 3.5 It is also proposed to allocate £0.5m of the growth funding to meet the cost of increased business rates (partly a reflection of growth in school size) and use the rest of the allocation ie £2.5m to provide funding for growing schools and bulge classes that have been agreed with the Borough in order to meet our responsibilities for place planning. The amount of £2.5m will require a less generous allocation of funding for new classes than has been used in 2018/19. In order to meet the expected requirements funding for new classes will be provided at the level of AWPU only.
- 3.6 No new funding has been set aside to support Schools Facing Financial Difficulties. This now operates as a loan scheme and future support will be funded from loan repayments made by former recipients. However this will be kept under review especially as it is expected that the next few years will be challenging for all schools especially smaller primaries.

- 3.7 It is proposed to maintain the Central block allocation provided in the grant. However it will be important to develop options to safeguard the future of the historically agreed services. The School Improvement partnership will provide a future framework for some of these services however further work will be needed to consider options for Trewern and the Community Music service. This may include changes to service provision or introduction of some additional charges. This needs to be done with care in order not to have an adverse impact on poorer families or other vulnerable or protected groups.
- 3.8 Cabinet are asked to approve the budget setting principles set out above and in particular the transfer between Schools and High Needs block and the amount set aside for the Growth fund.

4. The School Funding Formula for 2019/20.

- 4.1 Although funding has been calculated using the national funding formula at Local Authority level Authorities have the ability to vary this in consultation with their local forum.
- 4.2 For Barking and Dagenham the need to transfer funding to the High Needs block and to set aside a Growth fund does necessarily mean that there is less funding available for direct redistribution.
- 4.3 It is also a concern that the impact of the formula is uneven in the borough with primaries as a group being more adversely affected than secondaries. For a number of years it has been a local principle that the overall funding ratio between the two sectors should be 1:1.30 (or as near as technically possible.) The operation of the national funding formula however results in a ratio of 1:1.43.
- 4.4 In 2018/19 it was agreed that the local formula would be adjusted in order to bring the funding balance approximately one third of the way towards the national formula ie to a ratio of 1:1.34 and to move further towards it in 2019/20. This would allow a gentler transition towards the eventual funding balance and would offer some protection to primary schools.
- 4.5 Following the announcement of the extension of the transitional period, it has been agreed with Schools forum that remaining at 1:1.34/moving a small way to 1:1.36 is in the overall interests of the whole community of schools. A consultation is being carried out with all schools. *The consultation is due to conclude next week – responses so far accept the proposal.*
- 4.6 Following this principle it is recommended that the Cabinet approve the funding factors set out in Appendix A. These factors have been established using the National funding formula amounts as a starting point but the basic age weighted pupil funding has been adjusted to produce a funding balance of 1:1.34/1:1.36 as set out above.
- 4.7 The DfE will release updated census data and revised funding allocations based on that in December. When this is published it may be necessary to adjust some factor weightings or other aspects of the calculation. This will be done in line with the principles approved and in consultation with Schools Forum. Cabinet are asked to approve delegated authority of the final sign off to the Strategic Director for Service

Development and Integration in consultation with the Chief Operating Officer and the Cabinet Member for School Improvement and Educational Attainment.

5. Financial Implications

Implications completed by: Katherine Heffernan, Group Manager Service Finance

- 5.1 The Dedicated Schools Grant is a ringfenced grant provided by the Department of Education. The anticipated allocation for 2017/18 will be confirmed once October 2017 pupil census data is finalised but is expected to be at least £238m.

6. Legal Implications

Implications completed by: Dr Paul Feild, Senior Governance Lawyer

- 6.1 The legal framework for setting budgets for schools requires consultation. This is carried out with the local Schools Forum. The Forum is a decision-making and consultative body in relation to matters concerning schools' budgets as defined in the School Finance (England) Regulations 2012 and the Schools Forums (England) Regulations 2012 (the Regulations).
- 6.2 In accordance with the Regulations, the Local Authority must submit to its Schools Forum for consultation the Budget formula, for comments on any proposed changes. This will be done in line with the principles approved and in consultation with Schools Forum to complete the process this Report seeks delegated authority of the final sign off to the Strategic Director for Service Development and Integration in consultation with the Chief Operating Officer and the Cabinet Member for School Improvement and Educational Attainment.

7. Other Implications

- 7.1 **Risk Management** – There are several risks in relation to the national funding reform proposals. The first risk is that Barking and Dagenham is losing funding as a whole; secondly the national formula differs from our local formula resulting in large changes in distribution of funding between schools and especially a change in the balance of funding between primary and secondary schools.

There are also significant risks as the funding formula for High Needs does not reflect the true level of need within the borough and the pressure on the block worsens.

The Minimum Funding guarantee that limits any reduction in funding to 0%% per pupil and the Funding Floor that protects funding per pupil at 1% above the 2017-18 baseline offer some mitigation as it provides a smoothing mechanism preventing sudden funding changes. In addition, the Council operates a fund for Schools Facing Financial Difficulties.

The Council will continue to work with Schools and others to ensure there are high standards of financial management and control to meet these funding challenges.

- 7.2 **Staffing Issues** – The MFG should mean that consequent reductions in staff can be managed by schools in a phased way. Many schools continue to see growth in

pupil numbers. In most cases schools should be able to manage through the usual staff turnover processes.

- 7.3 **Customer Impact** – Schools will continue to take steps to minimise any adverse impact on outcomes for children.
- 7.4 **Safeguarding Children** – Increases in the pupil premium provide targeted support for looked after children and those entitled to free school meals.
- 7.5 **Health Issues** – The health and wellbeing board and Joint Strategic Needs Assessment (JSNA) highlight the importance of investing in early intervention to support children’s long-term wellbeing. The reports draw attention to the impact of family background, parental education, good parenting, primary education and the opportunities for learning and development in the crucial first five years of life, and identified what matters most in preventing poor children becoming poor adults.

Public Background Papers Used in the Preparation of the Report: None

List of Appendices

- **Appendix A** – Proposed model for allocating school funding in 2019/20